HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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Today's Higher Unemployment Rate Reflects Weakened Economy

November 1, 2002

Dear Democratic Colleague,

The employment data released this morning show that the jobless rate has risen to 5.7 percent and the number of private-sector jobs declined for a second month. When combined with other data released recently — four consecutive drops for the leading economic indicators, the lowest level of consumer confidence in nine years and a contraction of consumer spending, declining orders for durable goods, industrial output falling in both September and August, high levels of new claims for unemployment insurance — this paints a picture of a jobless recovery that could be vulnerable to renewed decline.

Since President Bush took office, the total number of jobs has declined by almost 1.5 million, while private-sector employment has declined by more than 2.1 million jobs. Republicans have responded by refusing to recognize that there is a problem, offering no plan to help a struggling economy get on its feet. Last year, they claimed that their $2 trillion tax cut was the key to prosperity. Those tax cuts have drained the Treasury, wiped out the surplus, and left the economy wobbling. It is time for the Republicans to admit the economy is in trouble and sit down with Democrats to work out a solution.

Sincerely,

John M. Spratt, Jr.
Ranking Member

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ECONOMIC DATA SUMMARY

The Employment Situation in October

The unemployment rate rose to 5.7 in October from 5.6 percent in September.

Long-term joblessness (unemployed 15 weeks or more) has more than doubled since President Bush took office and now stands at 3.0 million, indicating that new job opportunities are scant.

Since President Bush took office, the total job count has declined by about 1.5 million jobs. Private-sector employment has declined even more: by more than 2.1 million jobs. Private businesses actually cut 29,000 jobs in October. (Government employment rose by 24,000, resulting in a net decline of 5,000 for the total job count.) Since the low point in April, the job count has increased a mere 0.2 percent, with private-sector employment up only 0.1 percent.

The statement of the Commissioner of the Bureau of Labor Statistics highlighted the evident weakness of the October employment figures. Kathleen Utgoff noted, "...payroll employment appears to have leveled off in recent months following a period of modest growth from May through August." She went on to say, "Employment in manufacturing continued to trend down as the nation's factories shed 49,000 jobs. The rate of job loss in manufacturing has been higher over the past three months than it had been from April to July."

Average hours worked for both the private sector as a whole and for manufacturing declined in October and are below their levels last year. The deterioration of hours worked suggests further weakness in hiring because firms tend to adjust hours before adjusting employment.

New claims for unemployment insurance are averaging more than 400,000 per week, indicating that the pace of job loss is about where it was at the beginning of the year.

Other Economic Indicators

Real consumer purchases (which also were released this morning) fell 0.4 percent in September, the largest decline in 10 months. Consumer spending has been the largest single factor supporting the economy this year, and its weakening now foretells additional weakness going forward.

The index of leading economic indicators has declined for four consecutive months. Economists typically believe that three consecutive declines in the leading index is a credible sign of an imminent economic slowing, and this fall's string of four drops is very worrisome.

Major forecasters are writing their economic predictions for the current quarter way down. Laurence H. Meyer, a former Federal Reserve Board member who is again working with Macroeconomic Advisors, expects real GDP to edge up at only a 0.5 percent annual rate this quarter, which he notes is "pretty close to zero." JP Morgan's fourth quarter prediction is only slightly better at a 1.0 percent growth rate, a pace so slow that unemployment could be expected to rise.

The Federal Reserve's October 23 "Beige Book" survey of business conditions reported, "Most Districts reported that economic activity remained sluggish in September and early October.... Labor markets were lackluster in all Districts."

Consumer confidence fell for a fourth consecutive month, slumping 14.3 percent in October alone and dropping to its lowest level in nine years. Lynn Franco, director of the Conference Board's Consumer Research Center that conducts the confidence survey, commented, "The outlook for the holiday retail season is now fairly bleak. Without the likelihood of a pickup in consumer spending, an already weak economic recovery could weaken further."

New orders for capital goods fell sharply in September — down 13 percent — while shipments of capital goods declined for a second month. This prompted Macroeconomic Advisors to comment, "The momentum in orders points to a decline in equipment and software investment during the fourth quarter."

Mortgage interest rates have begun to rise from their remarkably low levels during the summer. JP Morgan predicts that "...mortgage applications should be trending lower over the next several weeks." Macroeconomic Advisors notes that "Our forecast is for construction spending to continue to subtract from GDP in the fourth quarter...."

Weak economies abroad suggest that export growth is likely to remain weak.

State and local governments face severe budget crises, prompting significant spending cuts that could weigh on the economy for some time.

To achieve the 3.7 percent real GDP growth over the four quarters of 2002 that the White House projects, the economy will have to climb at an annual rate exceeding 4.0 percent in the last two quarters of the year. This now appears most unlikely, if not impossible.

Meanwhile, the Administration refuses to acknowledge that the economy is in trouble. Just last week, Treasury Secretary Paul O'Neill said, "The latest indicators look good."